

JANUARY 2000

BUDGET NOTES

THE CITY OF NEW YORK
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FY 00 MID YEAR ASSESSMENTS

- Out-year budget gaps may be understated as a result of State actions.
- Tax revenues were \$941.8 million above plan for the first six months, and \$966.7 million above the same period in FY 99; however 62 percent of this variance is attributable to the prepayment of General Property tax.
- Major miscellaneous revenue collections were below plan, by a marginal \$5.9 million, mainly because of \$22 million in lower collections from parking and moving violations and related fines.
- New York State enacts the Health Care Reform Act, which expands health care to low-income families at an estimated cost of \$160 million to the City over the Financial Plan period.
- The public-assistance caseload has declined by 53,622 to 621,902 since the end of FY 99.
- Overtime spending through December FY 00 was \$266.7 million, \$17.8 million above the same period in FY 99.
- The City's work force as of December 31, 1999 was 249,727, an increase of 3,091 from the end of FY 99, largely because of new hires at the Board of Education.
- Actuarial changes may lower the City's contributions to the Pension Systems in FYs 00-02 but raise them in the out-years.
- New York State enacts a Variable Supplements Funds law for Uniformed Correction employees, at an estimated cost to the City of \$75 million annually.
- School administrators are in the process of finalizing new contract.
- The Transit Authority could end calendar year 1999 with a surplus of \$200 million, but faces budget gaps in the out-years, which could result in significant fare increases.

Impact On Out-Year Budget Gaps Of State Actions: In the last six months the State has made a number of decisions that are estimated to cost the City Treasury up to \$2.4 billion between FY 00 and FY 03. Among the most prominent are: (1) the repeal of the Commuter Tax, costing an estimated \$1.9 billion over the course of the Financial Plan; (2) the enactment of legislation establishing a variable supplements fund (VSF) for City Corrections Officers at a conservative cost of \$75 million a year; and (3) the enactment of the Health Care Reform Act of 2000 (HCRA), which establishes the Family Health Plus program of expanded health care coverage to working poor adults with children. Although a laudable program, NYC and other

localities will pay a large share of the cost, with the City's share estimated at \$160 million over the Financial Plan period.

Tax Revenues Tax revenues, especially the property tax and the personal income tax (PIT) so far in FY 00 have reflected the continuing strength of the New York City (NYC) economy. Without audits, for the first six months of FY 00, tax collections were \$11.7 billion. This was 9 percent, or \$966.7 million, higher than collections in the same period of FY 99, despite the elimination of the PIT surcharge. More than three fourths of the additional tax revenue is accounted for by the general property tax, which is \$745.6 million higher in first six months of FY 00 than the same period in FY 99.

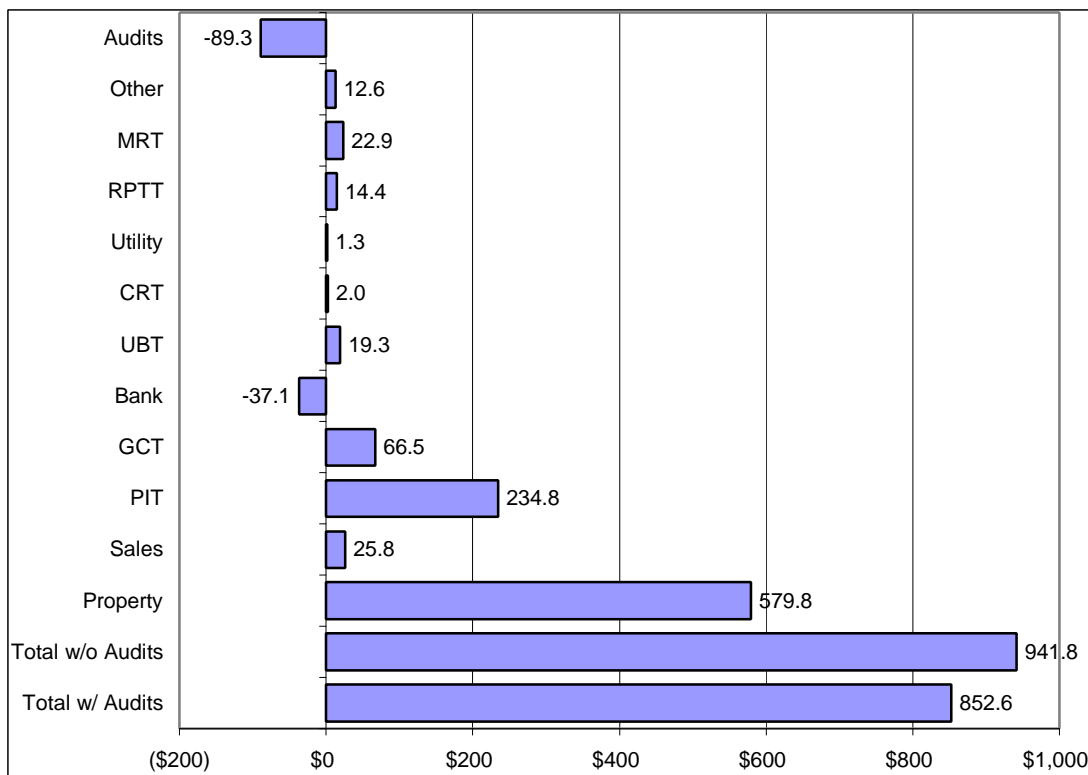
Tax revenues are also \$941.8 million, or 8.7 percent, above the November Plan without audits, and \$852.6 million above plan with audits. More than half of \$941.8 million is accounted for by the general property tax collections which are \$579.8 million above November Plan. The high collections can be explained by the fact that many people prepaid their property taxes in December. This may produce a drop in property tax revenues in the first few months of the year 2000. (See Chart 1.)

Overall, only the banking corporation tax and the audit revenue are lower than expected in the November Plan. Compared with FY 99 tax collections for first six months, the general property tax, unincorporated business tax, PIT and sales tax have done much better. As expected, real-estate-transaction tax related tax revenues have not been as high. The real estate market has continued to grow in FY 00, but from a tax perspective has not matched its extraordinary performance in FY 99, probably because of higher interest rates.

One of the strongest features of tax collections for the first six months of FY 00 is PIT performance given the loss of PIT revenue from the expiration of the 12.5 percent surcharge. PIT withholdings for the first six months are lower than FY 99 on a year-to-date basis, but total PIT collections in the first six months of FY 00 have been 1.2 percent higher than the same period of FY 99. PIT collections totaled \$2.34 billion and that is \$234.4 million, or 5 percent, above November Plan.

Sales tax revenues are \$25.8 million above plan in the first half of FY 00 and \$128.6 million, or 4.1 percent higher than in the first half of FY 99. This can be explained by the exceptionally high sales in November and December 1999.

Chart 1. *NYC Tax Collections Less November Plan, First Six Months, FY 00, \$ Millions*



Note: PIT=personal income tax, GCT=general corporation tax, Bank=banking corporation tax, UBT=unincorporated business tax, CRT=commercial rent tax, RPTT=real property transfer tax, MRT=mortgage recording tax.

Source: Office of the NYC Comptroller, January 2000, based on data from the Office of Management and Budget.

Revenues for only one of the business taxes, the banking corporation tax is below FY 99 revenues for the same period. Banking corporation tax revenue for the first six months of FY 00 is \$152.9 million. This is 14.3 percent, or \$55.2 million, less than FY 99 collections for the same period, and \$37.1 million below the November Plan. This is attributable to higher refunds in the last months of 1999. The general corporation tax is \$66.5 million above plan, and \$33.9 million, or 2.5 percent, above FY 99 on a year-to-date basis. The unincorporated business tax is \$19.3 million above plan and \$36.1 million above FY 99 collections.

Property tax collections for the first half of FY 00 are 9.9 percent, or 745.6 million, higher than the first six months' collections in FY 99. The property tax also did much better than expected in the November Plan by 7.5 percent. The year-to-date mortgage recording tax revenues for FY 00 are 5.8 percent, or \$23.7, million lower than FY 99 year-to-date collections, but above the November Plan estimate by \$22.9 million. The real-property-transfer tax revenues for first six months of FY 00 have been 0.6 percent, or \$2.7 million, below FY 99 collections but 14.4 million above the November Plan. The slowdown in real-estate-transfer related taxes is attributable to higher interest rates and consequent moderate cooling of the real estate market. Real-estate market values have continued to grow in 1999, but the growth rate has not matched 1998's exceptional performance.

The commercial rent tax for the first half of FY 00 is \$2 million above the November Plan but \$4.4 million below FY 99. The utility tax has out-performed both FY 99 year-to-date revenues and the November Plan estimates. Utility-tax revenues for first six months of FY 00 are 4.7 percent, or \$9.8 million, above FY 99 collections for the same period and \$1.3 million above the November Plan. Other taxes are \$12.6 million above plan and \$21.4 million above FY 99 collections.

Audit revenue is \$89.3 million below the November Plan. Finally, during the first six months of FY 00, tax liens of \$66.7 million were sold.

Major FY 00 Miscellaneous Revenue Initiatives The City's current projection of miscellaneous revenues, \$2.950 billion, is \$52 million more than was projected in the FY 00 Adopted Budget. Of the current projection, \$1.422 billion, or almost 50 percent, will be generated from major revenue initiatives. The remaining revenues, \$1.528 billion, consist mainly of water and sewer payments reimbursing the City for operations, maintenance and rental of the water and sewer system (\$848 million), tuition and fees from the City University Senior and Community Colleges (\$134 million), and payments from the Health and Hospitals Corporation (\$123 million), and other revenue sources (\$423 million), such as fingerprinting, recreation-facility permits, and taxi-inspection fees.

In the first half of FY 00, the City collected \$550 million from major revenue initiatives, which was 1 percent, or \$5.9 million, less than budgeted. (See Table 1.) The budgeted amount reflects a net increase of 50 percent, or \$8.5 million, of the amount added in the November Plan to major miscellaneous revenues.

Lower revenues from parking and moving violation and other related fines mainly accounted for the shortfall between actual collections and the budgeted amount for major miscellaneous revenues. During the first half of FY 00, the City realized \$177 million from these programs, \$167 million from parking violation fines, \$6 million from moving violation fines and \$4 million from illegal crossings at red lights. These revenues were approximately \$22 million less than budgeted. The number of parking-violation fines issued through December was 4,322,905, slightly lower than the 4,334,047 issued during the same period in FY 99. In response to lower collections than budgeted, the City reduced its FY 00 projection of revenues from parking-violation fines to \$369 million, \$20 million less than was projected in the FY 00 Adopted Budget and approximately the same amount as was collected in FY 99.

Collections were also lower for cable television franchises fees. Actual collections were \$26 million, \$5 million lower than the budgeted amount. Although collections from this initiative are now lower than budgeted, the City did receive more revenues than projected during the first quarter of FY 00. Revenues of \$17 million were collected compared with a budgeted amount of \$14 million. The City should collect enough revenues in the second half of FY 00 to meet the FY 00 projection of \$63 million.

Table 1. *Major FY 00 Miscellaneous-Revenues Initiatives,
First Half of FY 00 Collections (\$ thousands)*

	Plan	Actual	Better/(Worse)
Parking and Moving Violation and Related Fines	\$198,647	\$176,740	(\$21,907)
Overnight Investments of Treasury Cash	40,749	38,963	(1,786)
Parking Meters	35,221	37,509	2,288
Cable Television Franchises	30,936	25,734	(5,202)
FICA Refunds	30,000	41,881	11,881
Payments from Con Edison and LILCO	24,614	24,987	373
Construction Permits	19,890	19,894	4
Park Facility Privileges	15,921	18,057	2,136
Fire Inspection Fees	15,418	14,525	(893)
Environmental Control Board Fines	14,692	15,674	982
City Register Fees	10,600	10,738	138
Taxi Licenses	9,619	12,945	3,326
Telephone Commission Fees	7,498	6,804	(694)
Affirmative Litigation	7,400	6,485	(915)
Rents from City-Foreclosed Buildings	7,104	6,847	(257)
Street Openings/Utility Permits	7,050	6,166	(884)
School Lunch Fees	6,721	5,620	(1,101)
Garages and Long-Term Parking	5,445	5,950	505
Birth and Death Certificates	5,125	5,166	41
City-Foreclosed Property Auction Sales	4,233	5,613	1,380
Sheriff Desk Fees	4,052	3,511	(541)
Consumer Affairs Licenses	3,856	3,549	(307)
Airport Rental Revenues	2,346	16,250	13,904
All Other Major Initiatives	49,229	40,794	(8,435)
TOTAL	\$556,366	\$550,402	(\$5,964)

Source: NYC Financial Management System.

Collections for all other initiatives were lower than projected from such programs as pest control fees, NYC Police Department towing operations, and building-inspection fees.

Revenue collections from taxi licenses, parking meters, and the sale of City-foreclosed properties continue to be higher than budgeted. Collections from taxi licenses were \$12.9 million, parking meters were \$37.5 million and sale of foreclosed properties were \$5.6 million. Earnings from the overnight investments of cash balances were approximately \$38.9 million, approximately \$2 million lower than budgeted. The budgeted amount reflects an increase of \$5 million, or 50 percent, of additional earnings projected in the November Plan. The City projects interest income of \$90 million in FY 00 from investments of daily cash balances. The City earned \$154 million from interest earnings in FY 99 and \$161 million in FY 98.

Rental Income From the Port Authority for JFK and LaGuardia Airports

In calendar year 1999 (CY 99), JFK and LaGuardia Airports generated more revenues than were projected by the Port Authority of New York and New Jersey (PA). Preliminary figures show that the airports generated revenues of approximately \$860 million in CY 99, \$27 million more than the PA had projected in January 1999. As a result, the PA paid the City rental income of \$18 million for CY 99. The City received approximately \$1.8 million during the first

six months of CY 99, which was credited to the FY 99 budget. Through December FY 00, the City received an additional \$16.3 million. The City had anticipated rental income of \$2.3 million during this period. The Comptroller's Office expects the City to receive at least \$3 million more in rental income during the second half of FY 00. Since the November Plan included \$7 million in rental income for FY 00, the City could realize additional rental income of more than \$12 million above the amount projected in the November Plan.

FICA Refunds

The City benefited in FY 00 from higher-than-anticipated refunds of FICA overpayments made to the Federal Government. In FYs 87 to 91, the City remitted to the Federal Government more than required in FICA payments for certain employees, mainly part-timers. The City recently received a refund from the Federal Government of \$92 million. Approximately \$50 million of the amounts refunded will be distributed to the affected employees with the remaining \$42 million going to the City. The November Plan anticipated \$30 million in revenues from this initiative in FY 00.

New York State Health Care Reform Act In December 1999, NY State enacted a new Health Care Reform Act (HCRA 2000) that is estimated to cost the State \$9 billion over the next three-and-a-half years. The main goal of HCRA 2000 is to provide greater access to health care coverage for low-income families and the uninsured. The HCRA 2000 agreement will be mainly financed by the State's share of the tobacco settlement proceeds, an increase in the State's cigarette tax, and the extension of a surcharge on most health-care services. In addition, the HCRA 2000 pact will increase Medicaid contribution from localities, which are required to share the costs of the enhanced health care coverage for low-income families.

Among the highlights of the new HCRA is the creation of the Family Health Plus (FHP) program, which will extend Medicaid coverage to adults with family incomes that are below 150 percent of the Federal poverty level (FPL) when the program is fully phased in. The phase-in schedule begins with an eligibility threshold of 120 percent of the FPL by January 2001, ramping up to 135 percent of the FPL by October 2001 and reaching 150 percent of the FPL by October 2002. Single adults can also qualify for this program if their incomes are at or below the FPL. Currently, adults can qualify for Medicaid coverage only if their family incomes are below 87 percent of the FPL. These new Medicaid eligibles will be enrolled into Medicaid managed-care programs over the next 3½ years.

Moreover, the new agreement will provide subsidized health benefits for small businesses and direct State subsidies to individuals who do not receive health care coverage from their employers. The new HCRA pact also renews current Medicaid cost containment savings for the next three fiscal years and holds the trend factor at the rate of inflation. In addition, HCRA 2000 will provide greater reimbursement to hospitals for indigent care through increased funding for existing indigent care pools and the establishment of a new pool aimed at "high need" hospitals.

At this point, it is difficult to estimate the ultimate impact of HCRA 2000 on the City. The City will certainly take on additional Medicaid costs from the new FHP program. However, both the level and the timing of the new costs could vary widely depending on the rate of

enrollment and the number of families and individuals that would qualify for the program. Also, the Health and Hospitals Corporation might benefit from greater reimbursement under HCRA 2000 indigent care.

Public Assistance According to caseload statistics compiled by the City, the public-assistance caseload fell by another 9,593 recipients to 621,902 in December. For the first half of FY 00, the City's public-assistance caseload has already experienced a decline of 53,622 recipients, or 7.9 percent, from the June 1999 caseload of 675,524. Compared with the City's caseload projections in the November Plan, actual caseload is currently about 16,700 persons below plan. If the variance remains at this level through the second half of FY 00, the City could realize a surplus of about \$6 million in its public-assistance budget for the current year.

The decline so far in FY 00 is comprised of 35,600 recipients in the federally mandated Family Assistance (FA) program and 18,022 recipients in the State-mandated Safety Net Assistance (SNA) program. Since reaching its peak in March 1995, the City's welfare caseload has undergone a dramatic decline of more than 46 percent, dropping to 621,902 in December 1999 from 1,160,593 in March 1995. Similarly, total grant spending for the month has also fallen by about 48 percent to \$129.4 million in December 1999 from \$247.8 million in March 1995.

Overtime As of December 31, 1999, the City has paid \$266.7 million for overtime, which is \$17.8 million, or 7.2 percent, more than the same period in FY 99. If current spending patterns continue, the City may spend a record \$593 million for overtime in FY 00, which represents a risk of \$145 million to the budget.¹ (See Table 2). As in past fiscal years, overtime payments through December are anticipated to account for approximately 45 percent of annual overtime expenditures. In FY 99 the City spent \$531.8 million on overtime.

- ◆ The Police Department has spent \$80.6 million for overtime through December and is on pace to spend for FY 00 \$175 million for uniformed officers', \$55 million more than budgeted. The City contends that arrest processing continues to be the main force driving overtime spending.
- ◆ Overtime spending for Correction's uniformed personnel has declined by 19 percent over last year because of a lower City jail population during FY 00. However, in spite of the decline, at the current rate Corrections will overspend its FY 00 budget by \$5 million.
- ◆ The Sanitation Department's initiatives such as waste export and weekly recycling are major factors contributing to the \$23 million risk in overtime for its uniformed personnel. Overtime payments for uniformed personnel at Sanitation through December are 26 percent more than at the same time in FY 99.

¹ This projection includes an estimated \$7 million in overtime for the police department related to the millennium celebration.

Table 2. *Overtime Spending thru December FY 00 vs. FY 99 and Potential Savings/Risk for FY 00, \$ millions*

Agency	Dec FY 00	Dec FY 99	FY 00 vs. FY 99 Better/(Worse)	Projected FY 00	Budget FY 00	Savings/ (Risk)
Uniformed:						
Police	\$80.6	\$76.1	(\$4.5)	\$175.0	\$120.1	(\$54.9)
Fire	42.0	44.9	2.9	93.4	94.1	0.7
Corrections	21.4	26.7	5.3	47.7	42.5	(5.2)
Sanitation	34.2	27.4	(6.8)	81.6	59.0	(22.6)
Subtotal	\$178.2	\$175.1	(\$3.1)	\$397.7	\$315.7	(\$82.0)
Civilian:						
Police	\$11.0	\$5.2	(\$5.8)	\$23.7	\$11.8	(\$11.9)
Fire	10.9	8.7	(2.2)	24.4	19.6	(4.8)
Corrections	3.5	3.5	0.0	7.8	5.5	(2.3)
Sanitation	2.4	1.7	(0.7)	5.0	4.0	(1.0)
Board of Education	4.7	3.2	(1.5)	10.4	3.9	(6.5)
Juvenile Justice	2.2	2.0	(0.2)	5.0	2.9	(2.1)
Environmental Protection	8.5	7.9	(0.6)	19.0	17.4	(1.6)
Transportation	11.5	11.3	(0.2)	24.9	20.0	(4.9)
Parks & Recreation	2.5	2.0	(0.5)	5.6	3.9	(1.7)
Administrative Services	2.0	1.2	(0.8)	4.4	3.1	(1.3)
Agcy for Child Svcs.	9.1	10.5	1.4	19.7	14.3	(5.4)
Social Services	7.1	5.6	(1.5)	15.4	9.6	(5.8)
All Other Civilians	13.1	11.0	(2.1)	30.3	17.0	(13.3)
Subtotal	\$88.5	\$73.8	(\$14.7)	\$195.6	\$133.0	(\$62.6)
Total City	\$266.7	\$248.9	(\$17.8)	\$593.3	\$448.7	(\$144.6)

- ◆ Police Department overtime spending for civilian employees is projected to be \$23.7 million in FY00 or \$11.9 million more than budgeted. The overspending is mainly the result of: (1) training for school safety officers, who were formerly under the authority of the Board of Education, but are now under the jurisdiction of the Police Department; and (2) an inadequate number of 911 operators, coupled with a higher-than-anticipated volume of emergency calls.

In the past, the overwhelming majority of potential overtime risks occurred in uniformed overtime. For instance, at this time in 1999, uniformed personnel accounted for 75 percent of total overtime risk. However, that pattern seems to be altering. So far in FY 00, uniformed overtime spending patterns pose 57 percent of the risk in overtime, while civilian overtime spending patterns account for 43 percent. Part of the reason for the apparent overspending in civilian agencies may be the City's under-budgeting to curb overtime, similar to the City's approach to uniformed employees' overtime. All civilians combined spent \$179 million during FY 99, but are budgeted to spend \$133 million during FY 00.

Work Force The City work force as of December 31, 1999, was 249,727, representing a net increase of 3,091 employees since the end of FY 99, largely the result of an additional 3,256 pedagogical employees. The City is expected to end FY 00 with 252,261 employees. This reflects a net increase of 2,534 employees to be added throughout the rest of the fiscal year to meet that target.

Table 3. *Work Force Comparison, December 31, 1999 vs. 1998*

Agency	Actual 12/31/99 Work Force	Actual 12/31/98 Work Force	More/(Less) Than FY 99
Uniformed:			
Police	39,473	39,684	(211)
Fire	11,426	11,362	64
Corrections	10,899	11,253	(354)
Sanitation	7,368	7,154	214
Sub-total	69,166	69,453	(287)
Pedagogical:			
Board of Education	92,510	89,125	3,385
City University	2,232	2,242	(10)
Sub-total	94,742	91,367	3,375
Civilian:			
Police	9,066	8,701	365
Admin for Child Svcs.	7,016	7,151	(135)
Social Services	13,297	13,448	(151)
All Other Civilians	56,440	56,512	(72)
Sub-total	85,819	85,812	7
Total	249,727	246,632	3,095

Source : City of New York, Office of the Comptroller, and Office of Management and Budget.

On December 31, 1999, the City work force was 3,095 above the same date in 1998. This net increase is mainly the result of additional pedagogical employees in the Board of Education offset by slight declines in uniformed and civilian personnel. Among the uniformed agencies, Police declined by 211 employees, Corrections declined by 354 employees, Fire increased by 64 employees, and Sanitation increased by 214 employees. Among the civilian agencies, the Administration for Children's Services declined by 135 employees and Social Services declined by 151 employees. (See Table 3).

As of the end of December 1999, Corrections had 406 fewer uniformed employees than it had at the end of 1998. This decline is expected to continue through the rest of FY 00, since the City's jail population has been smaller than anticipated. The smaller jail population has resulted in a reduction in the work force, as well as reduced overtime spending.

Since the start of the school year, September 1999, the Board of Education has added approximately 3,229 teachers. The additional teachers were necessary in FY 00 because of the following: (1) the Universal Pre-Kindergarten program, which is funded mostly by state aid, has doubled in size; (2) the implementation of the Early Grade Class Size Reduction program; and (3) the Chancellor's initiative to end social promotion. The additional teachers continue the growth of the pedagogical work force that started a few years ago, reflecting large increases in the student population.

Pensions

a. Actuarial Assumptions and Methods. The impact of the contemplated revisions in actuarial assumptions and methods discussed by the Chief Actuary of the City's retirement systems was outlined in the Comptroller's report (December 1999) on the November Plan. The situation remains essentially unchanged since then. The Chief Actuary anticipates making in the near future formal recommendations to the Boards of Trustees of all the retirement systems. Thereafter, if all the revisions are eventually implemented, the City's pension expenses will be lower than planned in FYs 00-02 but higher in FY 03. (See Table 4.) However, pension costs in FY 01 and FY 02 may be higher as a result of salary increases during FY 00, particularly for teachers and principals. For instance, the last phase of the teachers' contract, which was implemented in December 1999, raised salaries of teachers with 22 years of service to \$70,000 from about \$64,300. Consequently, the savings in FY 01 and FY 02 might be lower. The costs in FY 03 are uncertain. Currently, the Financial Plan does not make any provision for salary increases. If labor negotiations result in new salary increases in FY 01 and FY 02, then pension costs in FY 02 and FY 03 might be higher than shown in the table.

Table 4. *Possible Change in the City's Contributions to the Five Major Pension Funds, \$ millions*

City Contribution Projections	FY 00	FY 01	FY 02	FY 03
(a) Currently in FY 00 Budget & Financial Plan	\$ 1,238	\$ 1,175	\$ 885	\$ 701
(b) After Chief Actuary's Contemplated Changes	750	795	830	870
Savings (Cost Increases)	\$ 488	\$ 380	\$ 55	(\$ 169)

Note: The costs cited above do not include provisions for future salary increases or other actuarial losses.

Sources: (a) City of New York OMB and the Office of the Actuary, and (b) Office of the Comptroller.

b. New Variable Supplements Funds for Uniformed Correction Employees. On December 29, 1999, the Governor signed a NY State law granting new variable supplements benefits to the City's uniformed Correction employees at an annual cost of \$75 million. The law created two new variable supplements funds (VSFs)—the Correction Officers' Variable Supplements Fund (COVSF) and the Corrections Captains' and Above Variable Supplements Fund (CAVSF)—which will be funded from the equity investment earnings in the New York City Employees' Retirement System (NYCERS). If NYCERS' equity investments earn above a certain threshold,² a portion of it will be transferred to the COVSF and the CCAVSF. Benefits will be paid to COVSF and CCAVSF members as supportable by the assets of the respective VSF.

If this law had been in existence since FY 95, then amounts paid from NYCERS to the COVSF and the CCAVSF would have totaled \$1.44 billion (i.e. \$180 million in FY 95, \$250

² The threshold is known as the Hypothetical Fixed Income Securities Earnings (HFISE). The HFISE conceptually represents what NYCERS' equity investment assets would have earned if the equity investment assets had been hypothetically invested in fixed income securities. Each fiscal year the Board of Trustees (Board) of NYCERS will have to determine an Assumed (Hypothetical) Rate of Interest, which will be applied to the equity investments during the year to determine the HFISE. In similar VSFs, the Board adopts the average during the fiscal year of monthly 30-year U.S. Treasury Bonds yields published by the Federal Reserve Board in Federal Statistical Release H15, increased by 12 percent, as the Assumed (Hypothetical) Rate of Interest.

million in FY 96, \$340 million in FY 97, \$390 million in FY 98 and \$280 million in FY 99) over the last five fiscal years. Similarly, payouts over the last 15 years, since FY 85, would have totaled over \$1.9 billion if NYCERS had been invested 70 percent in equities as per current asset allocation policy.

The Chief Actuary has estimated³ that the cost of this law would be the equivalent of reducing the actuarial investment return assumption (AIRA) by 14 basis points. If the AIRA is reduced by exactly that amount, then annual employer contributions to NYCERS would increase by about \$75 million, which is the cost of the benefit, and the City's pension expenses would increase by about \$53 million and other NYCERS' employers' expenses would increase by \$22 million.⁴ However, instead of reducing the AIRA to recognize the SKIM,⁵ the Chief Actuary might propose the Liability Valuation Method, under which the Present Value of Future SKIM (PVFS) would be established as an actuarial liability to be funded in a manner consistent with other actuarial liabilities.⁶ While the total employer contributions would increase by a similar amount, in this case—because the entire PVFS would be allocated as a Corrections/City liability—the entire \$75 million would have to be paid by the City. It should also be noted that the \$75 million annual cost could be an underestimate. As previously noted, payout totals over the last five years would have been approximately \$1.44 billion and over the last 15 years would have been \$1.9 billion.

Beyond the immediate cost, enactment of this law raises other concerns:

1. Salary and benefit issues are usually resolved through collective bargaining. In this particular instance, the New York City Council passed a home rule message allowing the State Legislature to approve the bill, which was eventually signed by the Governor. The entire process by-passed the labor-management negotiations, despite strong objections from the City.
2. The SKIM legislated for Corrections is similar to the original version of the SKIM that was legislated for uniformed Police and Fire employees. Benefits are dependent on stock-market performance and are open-ended. If stock-market returns are high, the funds transferred to the VSFs will be high and, correspondingly, benefits paid to members will be high. If stock-market returns are lower than the threshold defined by the NYCERS' Board, then no money will be transferred into the VSFs. Therefore, the benefits from the VSFs remain uncertain. The Police and Fire VSFs, as well as the Transit and Housing Police VSFs, removed this uncertainty by negotiating with the City to obtain a defined benefit SKIM, where the payout amounts are defined and guaranteed by the City. These are known as the defined-benefit

³ Fiscal Note 99-05 dated April 22, 1999 prepared by the Chief Actuary for NYCERS.

⁴ NYCERS has reached a situation where its assets exceed its liabilities and employers are required to make only the minimum contribution. The minimum contribution, as defined by the Chief Actuary, is the sum of the Administrative and Investment Expenses paid out of the corpus of the pension fund in the previous fiscal year and the premium for the Group Term Life Insurance. By itself, the new liability from the Corrections VSFs will be absorbed by the excess assets without resulting in any additional employer contributions to NYCERS. However, it has been assumed for this analysis that various other benefit enhancements, like COLA increases, would increase liabilities to a point where employer contributions to NYCERS would have to rise above the minimum.

⁵ The Variable Supplements Benefits have been long known and referred to as SKIM benefits.

⁶ Fiscal Note 99-05 dated April 22, 1999 prepared by the Chief Actuary for NYCERS.

SKIMs, where both payouts and costs are predictable-an advantage for both the City and the members. The Governor signed this bill into law with the clear message, as is evident from his approval memorandum, that he expects it to be converted to a defined-benefit SKIM similar to that currently enjoyed by police officers and firefighters.

3. Union leaders of non-uniformed City employees point out the unfairness of this law. Unions associated with NYCERS are now lobbying the State and the City to obtain similar treatment. If this benefit were to be extended to all City NYCERS members who currently do not have a VSF benefit, City contributions would increase by an additional \$475 million per year.

Labor Reserve The City's labor reserve currently includes funding of \$99 million in FY 00, \$136 million in FY 01, \$130 million in FY 02 and FY \$131 million in FY 03. Most of these funds, \$56 million in FY 00, \$93 million in FY 01, and \$88 million in each of FY 02 and 03, are being held to fund pending labor contracts and to transfer to agencies budget for contracts previously finalized. The City has not yet finalized contracts with the school administrators and school custodians. School administrators have voted to ratify a new contract, which should be finalized shortly. In addition to the funds available in the labor reserve, the City accrued \$6.5 million in FY 98 and \$16.4 million in FY 99 to fund pending contracts with the school administrators and school custodians.

The City, on December 16, 1999, signed a Memorandum of Agreement with the Council of Supervisors and Administrators (CSA) representing school administrators in the City. All members of CSA will receive salary increases of 3 percent effective February 1998, 2 percent effective February 1999, 2 percent effective August 1999, and a 3.58 percent increase in addition to a \$75 welfare fund contribution effective April 2000. Members with 22 years of service will also receive a longevity payment of \$3,400 effective August 2000. In addition to these provisions, the agreement provides for performance-based increase in wages to the top 25 percent of school administrators ranging from \$2,750 to \$15,000 beginning in FY 00. Also, starting in FY 00, school administrators may receive differential increases in wages for longer workdays and work-years and for working in low-performing schools.

The basic provisions of this agreement, which include the salary increases to all members, are expected to cost the City approximately \$5 million for FY 98, \$14 million for FY 99, and \$27 million for FY 00. By FY 01, this cost could increase to about \$44 million if 75 percent of CSA members receive the longevity payment of \$3,400. The above cost estimates do not include the effect of differential payments to school administrators for longer workdays and work-years, performance-based incentives, or for working in low-performing schools.

Transit Authority The NYC Transit Authority's (TA) financial condition has improved from its December 1998 forecast for CY 99. If the current trend in passenger revenue collections continue, combined with a \$113 million unutilized discretionary reserve, the TA could end CY 99 with a surplus of approximately \$200 million. For the out-years, the TA projects a zero deficit in CY 00, a \$482 million deficit in CY 01, \$642 million in CY 02, \$740 million in CY 03,

and \$850 million in CY 04, as a result of rising debt-service payments from an aggressive capital program and slow revenue growth resulting from fare discounts and other programs such as the elimination of two-fare zones. However, these deficits do not account for the costs of the recently negotiated labor settlement between the MTA and the Transit Workers Union (TWU).

The recent Transit Workers Union labor settlement (pending union ratification) on December 15, 1999, included wage increases of 5 percent in CY 00, 3 percent in CY 01, and 4 percent in CY 02. The Comptroller's Office estimates increased salary costs and benefits to the New York City Transit Authority of \$122.4 million in CY 00, \$199.6 million in CY 01, and \$305.5 million in CY 02 and CY 03.

Given the projected surplus of approximately \$200 million in CY 99, there will be no need for a fare increase in CY 00. Barring other sources of revenue and/or significant expenditure reductions in the out-years, the possibility of fare increases of as much as 35 cents looms in CY 01, and approximately 49 cents in CY 02, and 54 cents in CY 03, if no other resources materialize and/or actions are taken to reduce spending. Of this amount, approximately 10 cents is attributable to the labor settlement in CY 01, and 16 cents in CYs 02 and 03. (See Table 5).

Table 5. *The Labor Settlement and New Debt Service from FY 00 to FY 04 Capital Plan and TA's Budget Deficits, \$ millions*

Fiscal Year	FY 00	FY 01	FY 02	FY 03	FY 04
Budget Deficit without Labor Settlement	\$0	\$482.1	\$642.4	\$739.6	\$850.1
Estimated Cost of Labor Settlement	\$122.4	\$199.6	\$305.5	\$305.5	\$305.5
Adjusted Budget Deficit with Cost of Labor Settlement	\$122.4	\$681.7	\$947.9	1,045.1	\$1,155.6
Anticipated MTA Actions Including Higher FY 99 Surplus	(\$122.4)	\$0	\$0	\$0	\$0
Net Estimated Deficit	<u>\$0</u>	<u>\$681.7</u>	<u>\$947.9</u>	<u>1,045.1</u>	<u>\$1,155.6</u>
Potential Impact on the Fare from the Labor Settlement	\$0	\$0.10	\$0.16	\$0.16	\$0.16
Total Estimated Impact on Fare	\$0	\$0.35	\$0.49	\$0.54	\$0.54

Source: Metropolitan Transportation Authority, *Summary Financial Plan for the Transit Authority*, September and December 1999, and NYC Comptroller's Office.

The MTA, however, has not indicated if a labor reserve was built into its Financial Plan forecast. But given the presence of significant assets invested by the MTA on behalf of the TA in the "MTA investment pool," the potential increases to the fare may be mitigated. In addition, the TA's revenue assumptions are conservative in the out-years since increases in ridership should continue to fuel growth in revenues. The TA's Financial Plan assumes growth in farebox revenues of 0.8 percent a year between 1999 and 2004. It also assumes slightly declining receipts from the Triborough Bridge and Tunnel Authority (TBTA) operating surplus, and assumes no growth in the 18-b matching subsidy from the State and the City. Through October,

ridership is up about 7.4 percent. If ridership continues to grow at this pace and the state raises its subsidies to the Transit Authority, there may not be a need for fare increases.

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